<u>VIA HAND DELIVERY</u>
Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
100 Cambridge Street - 12th Floor
Boston, Massachusetts 02202

Re: <u>Notice of Proposed Rulemaking – D.T.E. 99-38</u>

Dear Secretary Cottrell:

Pursuant to the Notice of Proposed Rulemaking issued on April 27, 1999 in the above-captioned docket, attached is an original and four (4) copies of the written comments of Eastern Edison Company ("Eastern") regarding the proposed 220 CMR Section 8.00. I have also included Eastern's comments on disk in WordPerfect format.

In general, Eastern supports the revised regulations. However, Eastern has identified two issues related to qualifying facilities under 5 MW ("Small QFs") which the Department should consider in formulating final rules. Both issues stem from the proposed treatment of QF power as being sold into the NEPOOL wholesale market. The rules should allow distribution companies flexibility in their arrangements with Small QFs: i) to minimize burdensome administrative overhead associated with billing and settlement, and ii) to ensure that the distribution companies' retail customers are not inappropriately subsidizing generators or retail customers located in other parts of New England.

Administrative Burden

The NEPOOL Regional Market Operations Committee ("RMOC"), in actions taken on August 6, 1998 and September 25, 1998, set forth three settlement options for generating facilities:

- facilities greater than 5 MW are required to participate in the NEPOOL Market (*i.e.*, bid their generation output directly into the Market or submit to the ISO a schedule of their generation output);
- facilities smaller than 1 MW must be treated as load reducers, *i.e.*, they must be either netted from the distribution company's load reported to the ISO or they must be reported by the distribution company as negative "Load Assets"; and
- facilities between 1 MW and 5 MW have the option of being load reducers or participating in the NEPOOL Market.

The limitation on facilities smaller than 1 MW is necessary because the NEPOOL market system unit commitment program does not recognize bids in increments less than 1 MW. The effect of the generation output of load-reducing Small QFs, whether netted or reported as a Load Asset, then becomes part of each distribution company's Adjusted Net Interchange ("ANI") settlement with the ISO. If the output of Small QFs is treated as being sold to the NEPOOL Market on an hourly basis, the distribution companies would need an inordinately burdensome administrative function to estimate the hourly effect of each Small QF on the distribution company's ANI (with respect to all seven market products) and to calculate payments for each hour for each product for each Small QF. If distribution companies are to treat QF power as sales into the NEPOOL wholesale market, then, in the interest of efficiency, payments to Small QFs acting as load reducers should be based on total monthly generation output and average clearing prices, not on a burdensome hourly estimation and reconciliation process.

Potential Subsidization

In New England, retail customers pay to support the distribution facilities and local transmission facilities used to serve their load requirements, based on the theory that they benefit directly from the use of those facilities to deliver their energy requirements. Conversely, generators connected to the regional network are not required to pay facilities support, since the power they inject into the system flows "down" through the regional network and local transmission and distribution systems to retail customers who are supporting the T&D facilities. Generators connected to distribution or local transmission systems who wheel their power up to the regional grid to participate in the wholesale market, however, use the T&D system in the opposite "direction." With power flowing (conceptually) up and out of distribution and local transmission systems, the local customers supporting those facilities are in effect providing a benefit to the generator and/or to the retail customers elsewhere in New England who ultimately consume the power. Consequently, generators connected to distribution and local transmission have traditionally been required to pay to support an appropriate share of the facilities that they use to transmit their power to the wholesale market.

For some Small QFs, the transmission and distribution support charges might exceed the revenues they receive for their generation, so charging facilities support could force these Small QFs to shut down. However, under FERC policy governing non-discriminatory access to transmission, if transmission and distribution facility support charges are discounted for Small QFs, they must be similarly discounted for all generators and loads seeking local point-to-point wheeling services. Providing discounted local transmission service to Small QFs could therefore result in subsidization of generators and other loads by the retail customers paying local distribution and transmission delivery rates.

Recommendation: Small QF Power for Local Use

An approach that would eliminate both of these concerns is to allow distribution companies to use the output of Small QFs as an offset to their Default Service load requirements. This would maintain the local use and benefit of the power and would avoid the administrative burdens and potential subsidization outlined above. Under this approach, Small QFs would be paid an average monthly rate based on the rates paid to Default Service providers which, by statute, must be a market-based rate. The generation would be used locally by Default Service customers who support the distribution system through their retail delivery rates.

Please date stamp the enclosed copy of this letter and return it to the messenger. If you have any questions, please do not hesitate to call me.

Sincerely,

Laura S. Olton

Attorney for Eastern Edison Company

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